

SAFC #217  
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2 March 1956

MEMORANDUM FOR: Director of Administration, PCS/DCI

SUBJECT : Bonus Provisions of Existing Contracts  
(Project AQUATONE)

1. In line with our discussions of this morning and based on review of existing contracts and pertinent parts of the Internal Revenue Code, there appears to be no tax relief available if the current arrangements remain the same. It is possible that adjustments could be made but these would depend in part upon Agency objectives and desires of the individuals concerned.

2. It is my understanding that the objective to be served for Agency purposes by the existing bonus provision is to provide an incentive for the individuals to fulfill the provisions of the contract by the device of a contingent bonus payable only upon satisfactory completion of the full term of the contract. The signed memorandum from the individuals concerned requested that the amount of the bonus be paid monthly or, in the alternative, that it be certified to be accrued and due at the end of each month but payable only once a year. It is obvious that to meet this request would negate the entire concept of the bonus and in fact it is no longer a bonus but is simply compensation in the same sense that the basic salary is compensation.

3. There was discussed with you one or more alternatives. The first alternative would be a slight compromise on the existing concept but might well be satisfactory to the Agency and to the individuals. This would involve payment of the bonus shortly prior to the end of calendar year 1956 if all other conditions have been met but the actual payment would only equal, let us say, 75% of the amount specified. At the end of the calendar year 1957 the same procedure would be followed. The 25% withheld would be paid upon completion of the full term of the contract. It would appear that this would probably be more acceptable to the individuals although it does compromise the basic concept to some extent.

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4. Another alternative would be to pay the bonus upon completion of the full contract period and, otherwise meeting all terms of the contract, pay it in installments over a period of two or more taxable years. This would be of the greatest monetary benefit to the individuals and would save them considerable in their taxes. However, since the payment is delayed it probably would not be acceptable.

5. As suggested to you this morning, it probably would be desirable to have the Agency approve either of the above alternatives in principle and permit an authorized representative of the Agency to negotiate the details on the spot and indicate to the individuals that the Agency would commit itself on the spot to whatever details could be agreed upon.

6. As a side issue, if the contract is to be amended, I also suggest for consideration by the Agency that an entirely new contract be signed incorporating any changes that are necessary and as may be agreed upon and putting in one document our basic commitments to the individuals.

JOHN S. WARNER  
Deputy General Counsel

OGC/JSW: ☐

Original - Addressee Cy 1  
1 - Project Chrono Cy 2  
✓ 1 - General Counsel Cy 3